Neighborhood Planning for Community Revitalization

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Neighborhood Home Improvement Loan Fund Handbook

by Ryan Pulkrabek

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I. INTRODUCTION

The mission of the Minneapolis Neighborhood Revitalization Program (NRP) is to *"revitalize the city's residential areas--to make them better places to live, work, learn, and play--through neighborhood-based planning and delivery of public services, guided by residents in partnership with public agencies and community interests."* Through neighborhood citizen participation, Minneapolis neighborhoods are creating and implementing action plans that address key issues and strategically allocate resources to meet neighborhood-specific needs. Housing is a central component of all NRP plans with over 50 percent of funding designated for home improvement initiatives. Dozens of neighborhoods will, within the next few years, design and implement home improvement programs.

This handbook is intended to help neighborhood groups design and implement a home improvement loan fund. It is tailored specifically for Minneapolis neighborhoods operating within the context of the Neighborhood Revitalization Program (NRP), though we hope the information could be helpful to other groups wishing to design a similar program. The report attempts to chronologically describe the steps involved in the creation of a home improvement loan fund. An extensive appendices section provides examples of maps, objectives, proposals, definitions, financial spreadsheets, and guidelines used by other Minneapolis neighborhoods.

This study was sponsored by the Neighborhood Planning for Community Revitalization Program (NPCR) at the Center for Urban Affairs (CURA), under the direction of Kris Nelson. This handbook was created by Ryan Pulkrabek, with assistance from Darcy Seaver and the East Harriet-Farmstead Neighborhood Association. We would also like to acknowledge the Minneapolis neighborhoods and banks that provided much of the experience and expertise needed to create this handbook.

II. FORMULATING OBJECTIVES

Neighborhoods create home improvement programs to improve their housing stock. Identifying this general objective is easy. Identifying the specific objectives and rationales within this broad goal is more difficult. Some preliminary research can make this task easier. This chapter explains how to obtain relevant data, and shows how this data can help a neighborhood formulate objectives and design guidelines.

A neighborhood should ask some basic questions early in the planning process, and should review these questions again before designing the specifics of a loan program. Some important questions include:

- Why does your neighborhood want a loan program?
- What do you want the loan program to accomplish?
- What types of housing are in the most need of help?
- What areas of your neighborhood are in the most need of help?
- How much demand is there for home improvement financing?
- What other financing sources are already available?
- Who *would* and who *should* use this subsidized funding?

RESEARCH

Market Area/Demographics

A good starting point and concept to keep in mind throughout this process is the neighborhood market area. Specifically, how many residents, households, and residential buildings are in the neighborhood? How many residents own and how many rent? What is the average and median household income? How many residential buildings, how many units are single-family homes, townhouses/condos, duplexes, or apartment buildings?

Much of this information can be found in a booklet produced by the Minneapolis Planning Department: "The Neighborhood Planning Base." The Planning Department has produced this neighborhood profile booklet for many of the 81 Minneapolis neighborhoods. This resource provides basic population, housing, health, employment, education, recreation, crime/safety information, neighborhood history, historic sights, and zoning data. A general street map is also included in most booklets. These free booklets can be obtained by calling Kelly Jones of the Minneapolis Planning Department at 673-3014 or the planner for your neighborhood. To find which planner is assigned to your neighborhood, call the NRP office at 673-5140.

The Planning Department compiles more detailed census data by neighborhood through their User Defined Area Program (UDAP). These detailed statistics can supplement the Planning Base booklet, and can be especially helpful in describing neighborhood income distributions. UDAP reports can be obtained by calling your neighborhood-assigned planner. UDAP reports are also available at libraries which compile census data, such as Wilson Library at the University of Minnesota.

Housing Condition

The Planning Department recently completed the "Minneapolis Neighborhood Housing Comparison: '84,'89,'94." This timely report provides supply, condition, age, homestead status, and value of housing by neighborhood. It also provides a comparison of how these variables changed between 1984, 1989, and 1994. This resource can be obtained by contacting the planner assigned to your neighborhood.

The MCDA (Minneapolis Community Development Agency) also produces information by neighborhood. This data duplicates some of the Planning Department information, but it also includes additional data on housing condition and government residential financing activity. MCDA reports provide information on housing condition, boarded properties, foreclosed properties, and absentee ownership. Their reports also summarize city and Minnesota Housing Finance Agency (MHFA) loan activity within each neighborhood. MCDA information can be obtained by calling their Citizen Participation Department at 673-5242.

The city inspectors and field assessors can also be valuable sources of information on current housing condition and trends.

Visual Resources

Neighborhood maps illustrating housing values, value changes, type, condition, age, and other variables are available at the Minneapolis Public Works GIS Print Room. These easy to read, color maps illustrate the geographic distribution of many neighborhood geographic features.

Neighborhoods can obtain these maps by visiting the GIS map room located at: Engineering Design--GIS Print Room, City of Lakes Bldg., 309 2nd Ave. S., rm 301, Minneapolis, MN 55401, phone: 673-2431, fax: 673-2048.

These maps can be almost any size, ranging from 8" by 11" to wall size. The cost for standard neighborhood GIS maps is $10 per copy. Customized GIS maps typically cost $35. Pre-payment is generally required. Map generation usually takes about four days. An 8" by 11" map is attached in Appendix A.

Freenet

A new resource is rapidly coming "on-line." The "Twin Cities Freenet" computer network provides yet another source of information for neighborhoods. Census data, neighborhood profiles, NPCR reports, and communication abilities are a small sample of the features available on this network. The information and communication possibilities are virtually unlimited, both for revolving loan program research and general neighborhood activities. Besides neighborhood information, the system offers electronic mail, discussion forums, and expert advice.

To find out about becoming a participant, call Scott Fritchie at 827-2711 (fritchie@free-net.mpsl-stpaul.mn.us). For specific information about neighborhood resources and connection assistance, call Nolan Venkatrathnam at 625-1551 (nolan@free-net.mpls-stpaul.mn.us).

Assessing Demand

As residents of your neighborhood, you may have an intuitive sense about the demand for funds. Nonetheless, additional surveying can be helpful. Some methods to gauge market demand include:

- Ask *local bankers* for their estimate of demand given the market area of your neighborhood and some sample terms (interest rate, loan maximums, and eligibility). Meeting with the bankers personally is the best way to get their input.
- Ask *MCDA or MHFA officials* for their estimate of demand.
- Interview real estate agents about their assessment of financing demand or need.
- Find out what kind of demand *other neighborhoods* experienced, especially neighboring neighborhoods with similar demographics.
- Conduct focus groups, hold block club discussions, or distribute questionnaires to neighborhood residents about their likelihood to borrow home improvement funds at some sample terms. The survey can be as formal or informal as you feel necessary.
- Commission a *study* of neighborhood housing conditions or demand characteristics. The Center for Urban Affairs' Neighborhood Planning for Community Revitalization (NPCR) program provides assistance to NRP neighborhood organizations. Contact Kris Nelson at 625-1020 for application information.

Alternative Financing Assistance

NRP financing assistance is by no means the sole resource available to residents. The MCDA, MHFA, and nonprofit housing services provide a myriad of subsidized residential financing programs. In addition, banks offer many market-rate, and a few below-market-rate financing products. A current list of MCDA programs can be obtained by calling 673-5286. The MHFA will have a database on home rehab and purchases programs available by the summer of 1995 (297-3131).

Reviewing alternative programs is important so the neighborhood program does not duplicate existing efforts. Knowledge of these resources also allows neighborhood leaders to spread awareness of alternative funding sources to the neighborhood at large.

OBJECTIVES

Once you have a statistical summary of your neighborhood, a sense for how areas of your neighborhood differ, and a feel for how likely neighborhood residents are to borrow funds, formulating specific program objectives is much easier. The neighborhood will be able to better answer the questions posed earlier, questions such as:

What types of housing most need assistance? Your general research tells you what the distribution of housing types is and what portion are owner occupied. GIS maps identify the location of residential properties by type. The Planning Department and MCDA data identify the numbers of substandard housing by type. Your knowledge of alternative financing assistance helps identify what type of housing finance demand is not already being served.

What parts of the neighborhood most need assistance? Your own knowledge of your neighborhood is the best resource, but the GIS maps visually illustrate housing condition, property value, value changes, and age. These color maps can help you decide if you want to target assistance by location.

How much demand is there for home improvement financing? Discussions with bankers, MCDA officials, other neighborhoods, and neighborhood residents will give you a better sense for the demand. The discussions with financial professionals will also be a valuable source of technical advice. Resident input can help you gauge demand and will reveal what objectives are important to the neighborhood.

Who should be eligible to participate in the program? Census income data can give you an idea of what people can afford. This information, combined with the neighborhood market area and fund size, can help neighborhood organizers design eligibility criteria. Citizen input provides program designers a sense of who and what residents feel should be eligible.

Using all these resources can help your neighborhood tailor objectives and guidelines to your neighborhood, and thus make most effective use of housing dollars. An example of the East Harriet-Farmstead's objectives are provided in Appendix B. These objectives differentiate between objectives of the program and objectives of the guidelines.

III. ALTERNATIVE FINANCING STRUCTURES

When designing a home financing program, neighborhoods have several options, and a multitude of option variations to choose from. Following is a description of several program options. A glossary of financial vocabulary common to housing loans is provided in Appendix C.

Revolving loan. A revolving loan program refers to a ol of money loaned and re-loaned over and over. The fund revolves because as the initial loans are repaid, the repaid funds are re-loaned. This cycle continues until the fund is depleted or the term ends. NRP revolving loans are tentatively scheduled to revolve for 20 years, at which time the funds are returned to the MCDA. A spreadsheet demonstrating the revolving effect of $500,000 is attached in Appendix D. With the assumptions provided, this $500,000 revolving loan fund is able to make almost $3,000,000 in loans.

Deferred loan. Deferred loan refers to a loan where repayments are *postponed* until the house is sold, at which time the loan is due. A second mortgage is placed on the home to ensure that repayment is automatically collected if the home is sold.

Forgivable loan. Forgivable loan refers to a loan in which all or part is *forgiven* if the borrower resides in the home for a specified time period. If the borrower sells the home prior to the specified time period, all or part of the loan is due. The forgiven part of the loan amounts to a contingent grant. A common variation is to have portions of the loan forgiven gradually over a period of years.

A benefit of the forgivable (and deferred) loan structure is that it acts as an incentive for homeowners to remain in their homes. The disadvantage is that it is less of a loan, and so the fund revolves less.

Interest buy-down. Under an interest buy-down program, the pool of money is not loaned per se, but is used to buy down the interest a borrower pays to a lending institution. If a neighborhood wants to provide low interest loan access to its residents, it could agree to pay the interest differential between a low interest rate and the prevailing market rate. If, for example, the neighborhood program interest rate is 4 percent and the prevailing rate is 10 percent, the borrower would pay the lending institution 4 percent, while the neighborhood would pay this institution 6 percent.

The simple interest costs for a $1,000 loan, with a one-year term and a 10 percent interest rate, is illustrated below.

Loan Amount	Market Int. rate	Term	Repayment amount	Borrower interest payment	Neighborhood interest payment
$1,000	10%	1 year	$1,100	$40	$60

To guarantee or not to guarantee lending institution funds is a major variation between buy-down programs. The administering bank may require a guarantee on the money they lend. The guarantee can be partial or full depending on the underwriting and risk of the loans. Under a guaranteed interest buy-down, the neighborhood must have a pool of money set aside to guarantee the bank funds against default.

Some programs do not require a guarantee, or may require only a partial guarantee. In this case, an interest buy-down program has tremendous leveraging potential. For example, $18,698.20 of neighborhood interest contributions can leverage $100,000 of loanable funds, assuming a market rate of 10 percent, a program rate of 4 percent, and a five-year term. Under these terms, $500,000 could leverage over $2.5 million of funds. Of course the bank funds do not revolve, and the neighborhood money is spent, not loaned, and thus is depleted faster.

Participation loan. Participation loan refers to a structure whereby the neighborhood combines its pool of funds with a lending institution, thereby increasing the total amount of funds available. The interest rate assistance charged by this blended fund is a combination of the neighborhood rate and the bank rate. If, for example, the neighborhood required a 2 percent return on its funds, and the bank required 10 percent, the borrower's effective rate would be 6 percent (assuming 50/50 participation). The main advantage of this option is that the available funds are doubled. MCDA sponsors loans of this type and refers to them as Plex loans.

Mortgage assistance. Mortgage assistance can take many forms. The neighborhood could use the pool of funds to directly finance the purchase of a home. These low interest mortgages are sometimes contingent on the borrower rehabilitating the property; a purchase/rehab program. These low interest mortgages can also be allotted for current renters; a rent-to-own type program. Direct financing such as this demands a large pool of money since mortgages are larger than typical home improvement loans. The Jordan and Whittier neighborhoods offer low interest mortgages.

With the resources available to most neighborhoods, points, down payment, or closing cost assistance are more common. This assistance can take the form of grants or loans and often incorporates a deferred loan feature.

LEVERAGING OPTION

Loan Sales on the Secondary Market

In addition to interest buy downs and participation programs, neighborhood loanable funds can be leveraged (increased) by selling these loans on the secondary market. Investors in this market pay the neighborhood now for the rights to receive the loan repayments in the future. They purchase the future stream of payments generated by the loan portfolio. For example, if a neighborhood loaned out $500,000, all or part of this $500,000 loan portfolio could be sold for a certain amount of additional funds. These additional funds could also be loaned out, and if the neighborhood wanted, sold again. In this way, the original fund is leveraged.

The neighborhood pays a service fee for this transaction and, depending on the interest rate and risk of the loans, a discount on their portfolio. The Community Reinvestment Fund (CRF) of Minneapolis specializes in this transaction (338-3050). Some housing services and banks also offer this service. A preliminary proposal to provide this service for the East Harriet-Farmstead neighborhood is attached in Appendix E.

IV. LOAN PROGRAM GUIDELINES

If a neighborhood has already prepared its objectives and chosen its financing structure, developing the specific guidelines is not difficult. The list of issues to decide, however, may still seem surprisingly long. This chapter identifies and discusses relevant issues, and is intended to serve as a kind of *checklist* for neighborhoods. Your neighborhood may not need to formally address all these issues, but it should be aware of them. The East Harriet-Farmstead guidelines are attached in Appendix F.

THE BASICS

The Interest Rate

The interest rate is a visible component of your program, and is one of the features that entices residents to participate. When designating an interest rate(s) the neighborhood should seek one that encourages strong, but not overwhelming demand. The goal should be to balance the supply of and demand for funds. The loan interest can also be thought of as a source of income to help cover program administrative costs.

The rate need not remain constant, but can be revised periodically. The rate could also be pegged to several points below the *prime rate*, and allowed to fluctuate with this rate. Some neighborhoods employ a *sliding interest rate* (i.e. 2, 4, or 6 percent) based on income, type of project, or geographic location. A sliding rate can improve the equity of a program, but may also increase the administrative requirements and complexity.

Maximum and Minimum Loan Amounts

Loan size depends on many factors. The size of the neighborhood fund, market size of the neighborhood, and demographic demand factors should influence the choice of loan size. The types of eligible or intended home improvement projects also affect the maximum. Programs geared toward small projects like sidewalks or painting could have small maximums, while programs open to major renovations and additions should have large maximums. Income eligibility also affects the range. Since income determines the monthly payment a person can qualify for, an income limit in effect limits loan size.

Small loans are less efficient to administer than large loans (as a percentage of the loan). The cost to service and originate a $100 loan is similar to the cost for a $10,000 loan. For the sake of administrative efficiency, a neighborhood may want to include a minimum loan amount.

Finally, the neighborhood should decide if a resident may borrow more than one time. If he/she may, must the first loan already be repaid? If the loan is repaid, may the resident's cumulative loan total exceed the maximum?

Term

The payback period or term of a loan affects how fast the money is paid back (to revolve again) and what kind of payments a resident can qualify for. The term actually has more impact on the monthly payment than the interest rate. The monthly payment for loans with different terms is provided in Appendix G. This table also demonstrates the effect various interest rates have on monthly payments.

Neighborhoods may wish to set terms that vary with the size of the loan. Another option is to set a standard term, but permit extensions when necessary to help a resident qualify. For example, a neighborhood could stipulate five-year terms, but give the administering partner discretion to increase the term up to ten years to facilitate qualifying.

ELIGIBILITY

Income Eligibility

Most neighborhoods place some kind of income restriction on participation. This restriction is based on the rationale that a city-financed, below-market-rate program should not be provided to high income residents, especially when program resources are limited. These eligibility considerations are highly dependent on the neighborhood's objectives.

Often neighborhoods define their maximum income restrictions in terms of a percentage of median household income as provided by HUD. These income sizes are adjusted for family size. HUD income guidelines are revised periodically. Current guidelines can be obtained by calling the NRP office at 673-5140. An example of these guidelines is attached in Appendix H.

Income Qualification

If income eligibility delineates the income ceiling, income qualifications set the floor. Income qualifications determine the maximum monthly payment an applicant can afford based on his or her income and debt, commonly referred to as the debt-to-income ratio.

The monthly payment is calculated using a formula. The formula calculates a maximum monthly payment based on a percentage of gross income, minus obligations. The obligations include such things as an applicant's mortgage payment, car payment, credit card payments, and other obligations. Formulas vary, though a typical one for consumer loans is 42 percent of gross income minus obligations. For example, if an applicant's gross income is $2,100 per month, mortgage payment is $600 per month, and car payment is $150 per month, the applicant could qualify for a monthly loan payment of $132 (($2,100 X .42) - $600 - $150 = $132). This standard could be relaxed somewhat for a neighborhood program, but the neighborhood is not doing residents any favor by qualifying them for a monthly payment they cannot afford.

Prior demographic research of income census data should help you determine income guidelines. This prior work can give you a sense of how many residents are able to afford subsidized loans, how many cannot, and how many can qualify for loans in the conventional market.

Project Eligibility

Each neighborhood has the freedom to designate what kinds of projects it wants to fund. These guidelines could range from permitting only exterior code compliance work, to allowing all home improvements. Commonly prohibited projects include furniture, appliances, non-permanent improvements, interior projects, decks, pools, hot tubs, or other luxury items. Another approach is to designate specifically which projects a neighborhood wishes to fund, rather than prohibiting projects.

A third approach is to forego project restrictions. Some neighborhoods have decided that income restrictions, housing type restrictions, or neighborhood demographics make project restrictions unnecessary (i.e. low-income persons cannot afford hot tubs). In neighborhoods that have suffered serious disinvestment, neighborhood organizers may be eager to fund any kind of home improvement, and so do not include any restrictions. The advantage of less project restrictions is a less complex program. Neighborhoods which stress program simplicity as a major objective are less likely to design project restrictions into their program.

A survey of alternative subsidized financing resources reveals that most MCDA and MHFA programs target code compliance, handicap accessibility, or energy improvements. If a neighborhood elects to follow similar project restrictions, its program runs the risk of duplicating existing efforts.

Housing Type Eligibility

What structures are eligible for funding? The standard housing differentiation includes: single-family homes, duplexes, condos, townhouses, coops, 3-4 unit buildings, or 5 or more unit buildings. These types are then divided between owner-occupied or rental. A neighborhood could also differentiate between rental property owned by a neighborhood resident, and rental property owned by a non-neighborhood resident.

The first step, again, is to have researched the demographics. What percentage of the housing stock is single-family, duplex, etc.? How big will the eligible market be if certain types of homes are not eligible? What types of housing are in the worst condition?

Another consideration is the extent and availability of other funding for various types of housing. Do existing programs already satisfy the needs of certain housing types?

The final consideration is more of a neighborhood value judgment. What types of housing would your neighborhood like to encourage?

Sweat Equity

Sweat equity refers to an arrangement where the property owner performs the home improvement labor. He or she increases the equity in their property by performing the work themselves, rather than paying a contractor.

Some neighborhoods prohibit sweat equity, though most allow it. Of the neighborhoods allowing this practice, most do not compensate the labor. Under a non-compensating sweat equity arrangement, the home improvement fund finances only the purchase of materials.

This arrangement can present a fund disbursal problem for neighborhoods disbursing funds after the work is complete. Many residents are unable to pay for materials up front. For these situations, allowances are usually made to pay the resident per invoice, or issue a copayable check to the resident and vendor before the work begins.

The neighborhood program should demand that the sweat equity applicant provide signed city inspection licenses, just as the program does for regular contractors.

ADMINISTRATION

Application

Designing the application process involves many decisions. Where should the applicant go to apply--the neighborhood office, the administering partner (Chapter V) office, or both? What information should the applicant be required to provide? Should the neighborhood design its own application form or use the partner's? Will applicants apply by predetermined deadlines, or through an ongoing process?

Your administering partner should be able to offer suggestions, and may insist on certain aspects. As the design process proceeds, knowing what information to request will become more apparent.

Approvals/Denials

The neighborhood should decide how much approval discretion they want. Some neighborhoods have opted to handle approvals/denials internally, while others have chosen to use the partner. Neighborhoods that take on this responsibility usually include an officer from the administering partner on the application review committee, or request an approval/denial recommendation on each application from the partner.

Neighborhoods choosing to grant direct approval/denial authority to the administering partner must be careful to provide the partner with complete guidelines. Since under most programs the partner is lending neighborhood money, banks may be uneasy about assuming approval responsibility. In this case, the neighborhood must provide rigorous, objective approval/denial criteria. To make allowances for exceptional denial cases, the neighborhood can provide applicants the right to appeal denials to the neighborhood association.

Handling approvals/denials in-neighborhood may seem more in the spirit of a neighborhood program, but there are good reasons to grant this authority to the administering partner. If the partner approves/denies each application based on (neighborhood supplied) pre-determined criteria, the process is more objective. If the partner can approve/deny the majority of applications internally, without formal co-consideration from a neighborhood loan committee, the process is simpler (for all parties). And finally, twenty years of ongoing loan evaluation involvement may be more responsibility than some neighborhoods wish to assume.

Supporting Forms

Typical supporting documentation for the application includes tax returns, a recent pay stub, and a property tax statement (to verify residency). Additionally, at least one project bid is usually submitted with the application.

To verify completion and protect the homeowner, many programs require a: 1) final invoice, 2) completion certificate signed by the property owner, 3) completion certificate signed by the contractor, 4) signed copies of city permits, and 5) lien waivers. MCDA programs require some kind of final inspection (in addition to the signed city permit) conducted by the neighborhood or a third-party inspector. The above forms are usually required before final disbursement.

Disbursement

Most neighborhoods disburse all loan proceeds upon completion of the program. Conventional construction/home improvement loans, however, are disbursed in increments during the construction process. The neighborhood needs to decide if it will disburse a portion of the proceeds up front or the full amount upon completion of the project. The rationale for disbursing a portion of the funds up front is that some contractors may be unable or unwilling to purchase materials and complete the job without a down payment. This issue becomes all the more relevant as the loans get larger.

Multiple disbursals present some challenges. One, it complicates the process requiring more than one check. Two, up-front payments inject a small element of risk, namely, that the contractor could take the down payment and run. If a neighborhood provides residents with a list of reputable contractors, this risk is minimal.

The neighborhood must weigh the benefits and costs of both approaches, and decide what is best for its situation.

Inspections

The MCDA requires that all property be inspected prior to disbursement of funds, either by neighborhood staff, volunteers, or a third party inspector.

Since most loan programs run many years, some neighborhoods choose to contract this long-term responsibility to a third party inspector. If your neighborhood opts to contract with an inspector, the inspector could, for a minimal additional charge, advise and consult with residents at the outset about the desires scope of work, review the submitted bids, and perform a final inspection.

East Harriet Farmstead received proposals from two housing consultants willing to provide the above services for about $100 per loan. The names and addresses of these consultants are: Jim Barnes, Project for Pride in Living, 2516 Chicago Ave., S., Minneapolis, MN 55404, phone: 874-85ll; and Margaret Metzdorff, P.O. Box 19123, 405 W. 47th St., Minneapolis, MN 55419, phone: 824-1845.

Credit and Property Reports

Administering partners have easy access to these resources. A credit report is an inexpensive (less than $5) check of credit history, including overdue payments, bankruptcies, and liens against the applicant. As a tool to approve or deny applications, credit reports can be evaluated individually, or evaluated based on stipulated objective criteria such as overdue payments, etc.

Title searches ($25-$30) are similar checks of the property. They reveal any liens or judgments against the property which may not have been detected by the credit report. If title insurance is taken, a title search is probably not necessary (and vice versa). Title insurance provides a more complete search of the property and guarantees it to be free of encumbrances, but it is much more expensive.

Collateral

Does your neighborhood want to secure a loan by taking a second mortgage on the property? Taking a second mortgage entails a registration fee, filing fee, and possibly a satisfaction of mortgage charge. In some cases, title insurance is taken as a guarantee of the validity of the property title. An appraisal can be obtained, though they are expensive. The costs of these devices for a $10,000 loan are as follows: registration fee - $23.00; filing of mortgage - $24.50; satisfaction of mortgage - $19.50 (if necessary); title insurance - $92.50; appraisal - $200-$300. The registration, title insurance, and appraisal cost vary somewhat with the size of the loan, but the filing and satisfaction fees are fixed.

The loan-to-value ratio is the relationship between the amount of the loan to the equity of the secured property. A mandated LTV can help guarantee the mortgage is fully backed by the value of the home. The downside is that mandating an LTV adds to administrative expenses and may disqualify more residents. The neighborhood should discuss this issue with its administering partner.

Besides offering the neighborhood potential security on loans (real and psychological), the mortgages allow applicants potential tax deductibility on the loan interest paid. Interest is only tax deductible if a mortgage is taken. The mortgage also serves to notify the neighborhood and administering partner of transfers of ownership, and represents an automatic collection device.

An important factor when considering whether or not to take a mortgage is the size of the loan. At a minimum, taking a mortgage costs about $70. With title insurance and an appraisal, the cost is more like $300 to $400. For smaller loans ($1 to $3,000), the practicality of taking a mortgage is questionable. The neighborhood's exposure is smaller on smaller loans, the mortgage deductibility benefit is correspondingly smaller, and the costs as a percentage of the loan are higher.

Fees

Who should pay the origination, servicing, and filing fees--the neighborhood or resident? This decision depends somewhat on the size of the fees. Mortgage fees vary little between lending institutions, but service and origination fees range from 3 to 15 percent of the loan value. The mortgage fees are typically paid by the applicant, but if origination and servicing fees are high, the neighborhood will need to pay part or all of these costs.

The applicant's fees can be rolled into the loan, meaning the applicant does not pay for them up front, but adds them to the loan principle. The applicant pays for these fees over the life of the loan.

Completion Deadlines

Does your neighborhood want to mandate a period of time following closing within which the work must be completed? Some programs stipulate 90 to 120 days.

V. ADMINISTERING PARTNERS

Unlike grant programs, loan programs virtually require an administering partner. Neighborhoods can assume many administering duties, but some functions may be beyond a neighborhood's capabilities. Neighborhoods cannot file mortgages, check credit, close on loans, or process repayments--functions which are inherent to the loan process--without meeting involved legal requirements.

The process of obtaining a financial partner to administer your loan program can be approached in several ways. The choice of approach depends on how much work you want to invest in designing the guidelines, and how much control you want over the design process. Do you want to identify the broad parameters of your program and leave design to the potential partner, or do you want to create detailed guidelines and ask potential partners for a price bid, or do you prefer a combination of the two?

Approach 1

The first approach is easier and is typically what financial institutions prefer. Basically, your "request for proposals (RFP)" asks the financial institution to design a program for your neighborhood. Your neighborhood need only determine the objectives of the program and a few basic parameters like the interest rate and eligibility requirements. The multitude of details associated with a loan program are worked out by the financial institution. As financial professionals, they can designate the guidelines easily and in such a way as to efficiently utilize their strengths.

There are several disadvantages to this RFP approach. First, the neighborhood loses some control over the structure of the program. Even with strong neighborhood participation, the needs of the administering partner can dominate the needs of the neighborhood. Second, the returned RFPs vary widely, and thus are difficult to compare. Instead of comparing apples with apples, the neighborhood must compare apples with oranges. Financial institutions have a distinct information advantage over neighborhood groups. By handing design responsibility to a financial institution, the neighborhood runs a risk of getting a non-optimal, difficult-to-compare program.

Approach 2

The second approach provides more neighborhood control and easier comparability. The neighborhood must design and specify all aspects of the program. The RFP describes this program and asks only for a price bid to provide the specified services. The returned RFP is then easy to compare and evaluate.

This approach also has several disadvantages. First and foremost, designing and specifying all aspects of a loan program can be difficult and time consuming. The financial expertise needed may tax the financial experience of the neighborhood. Second, financial institutions may object to portions of the program, and thus be less likely to return the RFP. These future administering partners may be unable to perform certain functions specified in the RFP, unwilling to undertake a program other than what they would have designed, or simply less eager to compete on price. It is conceivable the cost could be more because the neighborhood would request more services than are needed. Third, even with a specified RFP, financial institutions tend to submit their own design proposal, rather than respond to the neighborhood's proposal.

Approach 3

Somewhere in between the above two is the most likely route for neighborhood organizations. As long as the neighborhood is aware of the possible disadvantages, this can be an effective strategy.

Strategies

Whatever approach your neighborhood pursues, there are several strategies applicable to both.

- *Meet in person* with as many local financial institutions as possible. A potential partner is highly unlikely to return a proposal unless you have spoken to them in person. These meetings are a great source of information, providing demand appraisals and guideline suggestions.
- Seek outside, third party *financial expertise*, both in preparing and evaluating proposals. Ideally, a member of your neighborhood with lending experience should be a member of your loan program board.
- Communicate the *benefits* of a neighborhood loan program to prospective administering partners. These benefits include a source of new customers, Community Reinvestment Act (CRA) benefit (see next page), and servicing fees.
- Ensure a *competitive bidding* process. If a potential partner knows it is the only applicant, the bid will not be as favorable. Rather than sending out multiple RFPs, however, concentrate on several institutions who are likely to respond.

Examples of the Bottineau and East Harriet-Farmstead RFPs are attached in Appendix I.

Housing Services and Banks

Neighborhoods should be aware of the difference between nonprofit housing services and banks, and weigh the advantages of each in light of the needs of the neighborhood.

Nonprofit housing services have many years of experience administering subsidized housing programs. They provide "full-cycle lending," helping clients with all stages of the home improvement process. These agencies process the application, file mortgage documents, advise residents, inspect work, approve loans, collect and verify completion forms, and disburse funds. To pay for this level of service, these agencies typically charge service fees of 10 to 15 percent of the loan value.

Banks have less experience administering subsidized loan programs, but do have the ability. These potential partners usually do not provide services like inspections, project cost estimates, or contractor advice, but they can process the applications, originate the loans, and service the loans. Banks are able to provide these services for a minimal charge. In our study, bank fees ranged from three percent to nine percent of loan value, while housing service charges ranged from 10 percent to 15 percent. Banks are subject to CRA regulation, while housing services are not. This incentive, along with a smaller scope of services, allows the banks to charge less.

The bank or housing service need not necessarily handle all aspects of processing the loans. The neighborhood can assume some of these responsibilities, be it through volunteers or staff, or the neighborhood could employ a third-party consultant to handle many facets of the program. The Longfellow Community Council chose to follow this last option.

CRA Significance

Commonly referred to as the Community Reinvestment Act (CRA), the Housing and Community Development Act was passed in 1977 to encourage financial institutions to meet the credit needs of their local communities. The act specifies that the appropriate federal financial supervisory agency shall assess each institution's record of meeting the credit needs of the entire community, including low and moderate income neighborhoods, consistent with safe and sound operations.

One of these supervisory agencies evaluates a bank based on the following criteria: 1) bank marketing and community awareness efforts; 2) practices used to discourage certain groups (redlining); 3) bank record of opening and closing offices; 4) bank participation in community development; 5) number of loans originated in the community; and *6) bank participation in subsidized loan programs.* The supervisory agencies examine the efforts and activities of each institution, and provide ratings of compliance. The ratings range from: 1--outstanding, 2--satisfactory, 3--needs to improve, to 4--substantial non-compliance.

All banks must prepare and adopt a CRA statement. This statement should include a list of specific types of credit available within certain categories, such as mortgages, home improvements, small business, and consumer loans. Each bank must also prepare a map which delineates their service area. These maps must not exclude low or moderate income areas, as they will be reviewed for reasonableness by banking examiners.

The CRA can improve a neighborhood's negotiating position with banks. Banks that participate in neighborhood-subsidized loan programs gain CRA credit. The credit helps them obtain a higher rating, which in turn can prove helpful when a bank applies to open a new office or expand operations. A good CRA rating provides positive public relations for banks, and correspondingly, a bad rating can result in a negative public image.

Banks, however, vary in their need and desire for CRA credit. CRA assessment criteria are subjective and rather generous. In 1991, according to the Office of Thrift Supervision, about 11 percent of banks received outstanding, 79 percent satisfactory, 9 percent needs to improve, and only 1 percent received a substantial non-compliance rating. Banks have some CRA incentive to participate in neighborhood programs, but do not expect that all banks will be eager to participate. Stressing your program's potential to generate *new customers* for the bank may be as good a selling point as the CRA benefit.

EHFNA Experience

The East Harriet-Farmstead neighborhood sent 20 RFPs, but only received responses from three institutions: First State Bank of Eden Prairie, TCF, and Marquette. The TCF and Marquette proposals are attached in Appendix J.

Other Neighborhood Partners

Bancroft Neighborhood Assoc.--Southside Neighborhood Housing Service
Jordan Area Community Council--Northside Neighborhood Housing Services
Longfellow Community Council--Southside Neighborhood Housing Services
Lyndale Neighborhood Assoc.--First State Bank of Eden Prairie
McKinley Community--Union Bank and Trust
People of Phillips--TCF

Whittier Alliance--Southside Neighborhood Housing Services
A summary of eight neighborhood programs is attached in Appendix K.

VI. CONTRACT PROCESS

The contract process is both complicated and simple for neighborhoods. It is complicated because it is a legal document written per MCDA requirements. Most of the document is comprised of standard (boilerplate) city contract wording, containing standard scope of service, general conditions, and administrative requirements, etc.

The process is also complex because the neighborhood must actually have two agreements, one between the MCDA and the administering partner, and one between the neighborhood and MCDA regarding neighborhood responsibilities. If the neighborhood contracts with an inspector, it may need yet another contract. Copies of recent neighborhood contracts and advice can be obtained by calling your MCDA official.

The process is simple because the contract preparation process is taken out of neighborhood hands. Once the neighborhood has submitted it guidelines to the NRP office, the neighborhood, unfortunately, has very little ability to do anything but wait. The neighborhood may be consulted about various issues, and may need to make some guideline adjustments, but their main job is to wait.

Long contract waits are the experience most consistently noted by neighborhoods. Several neighborhoods had to wait upwards of six months for the city to finish preparing an essentially boiler-plate contract. The lesson or moral of this story is to submit your program to the NRP/MCDA office many months prior to your planned implementation date, and expect a long wait.

Another suggestion is to provide potential administering partners with an example of a prior contract used by other neighborhoods early on in the discussion process. MCDA contracts are extremely demanding in terms of insurance, audits, reporting requirements, etc. Alerting potential partners of these demanding requirements can help prevent problems later on.

VII. IMPLEMENTATION

Marketing

Marketing strategies to promote neighborhood housing programs need not be elaborate, but it is important that all eligible applicants are notified of what is available. Marketing efforts can usually be narrowly targeted since the market area is sharply defined and limited. Furthermore, grants and low-interest loans should not be difficult products to sell.

An initial step is to create a promotional information packet describing the program. This packet should include an overview, timeline, program summary, application requirements, and possibly an application form. An example of the East Harriet-Farmstead Grant Program promotional packet is attached in Appendix L.

A mass mailing or literature drop to all eligible properties is an effective means of communication. It ensures most eligible residents will learn about the program. Several neighborhoods report that personal distribution is about half as expensive as bulk mailings. East Harriet-Farmstead employs the Boy Scouts to hand distribute neighborhood mailings at a cost of $150 to $175 per distribution. The disadvantage to personal distribution is that the material cannot be deposited in mail boxes.

Bulk mailings have the advantage of access to a mail box, though they are more expensive. Besides postage, compiling mailing lists can be expensive. If neighborhoods do not already have mailing lists, they can be purchased from the GIS Print Room at 673-2431, or created manually from the assessor's records. GIS labels cost 5 cents a piece and can be sorted by category. For example, if the neighborhood only needs addresses of non-homesteaded property owners residing outside the neighborhood, it can so differentiate. This particular option allows a neighborhood to reach landlords living outside the neighborhood borders.

Neighborhood and community newsletters/newspapers provide additional marketing opportunities, both as feature news stories and paid advertisements. These mediums can be especially effective if they mention the program in consecutive editions.

Real estate agents, particularly ones specializing in your neighborhood, are yet another opportunity to market the program. Some agents are eager to know about programs so they can alert prospective buyers. Not only can these agents educate new neighborhood residents about neighborhood financing resources, they can use the program to encourage prospective home buyers to settle in your neighborhood. Sending information to key agents and real estate companies is an inexpensive method to spread awareness of your program.

Assisting Residents with Applications and Contractors

Completing the application and obtaining contractor bids can be a daunting task. The neighborhood can facilitate this process by helping residents complete applications and directing them to existing assistance resources.

The level of direct assistance a neighborhood can provide depends on several factors. If you have a staffed neighborhood office, your neighborhood can offer ongoing help to residents. If not, neighborhood volunteers can hold several workshops or help sessions to answer questions and fill out forms.

Choosing a contractor is a new experience for many homeowners. Many do not know where to start. Fortunately, there are many resources available. The City of Minneapolis Inspections Department publishes a helpful booklet entitled "Hiring a Contractor in Minneapolis." This book can be obtained by calling 673-3905. Your neighborhood would be well advised to keep a stack of these easy to read booklets in your office. The booklet discusses licenses, contractor resources, the bid process, contracts, permits, and legal considerations. Residents can obtain a list of six complaint-free contractors by calling Minneapolis Inspections at 673-3905. If residents have questions about specific contractors, they can call the same number to check if a specific contractor is licensed and has any complaints. The phone number of the Better Business Bureau is 699-1111.

Referrals are the most common and probably the best way to find contractors. Other sources of contractor listings include local newspapers, bulletin boards, and the yellow pages. The following organizations offer specific kinds of contractor information:

National Association of Remodeling	895-5129
National Association of Minority Contractors	374-5638
Painters and Allied Trades	379-4823
Sheet Metal, Air Conditioning and Roofing Contr.	593-0941
Minnesota Masonry Institute	935-8267

If residents need matching or additional funds to finance a project they can call the MCDA at 673-5286.

Housing fairs are a popular method to help residents complete forms and choose contractors. Many neighborhoods use these fairs to kick off their programs. Increasingly, neighborhoods make use of economies of scale by planning and holding these fairs collaboratively. The collaborating neighborhoods are able to split the work and cost, while increasing contractor and resident attendance. By charging a participation fee to contractors, these fairs can be self-supporting.

Some experienced neighborhoods compile lists of "good" contractors. Neighborhoods without sufficient experience to compile such a resource can ask experienced neighborhoods to share their lists.

Processing

The amount of neighborhood application processing involvement depends on the guidelines and the type of program. Grant programs typically are administered in-neighborhood, and so demand a great deal of neighborhood work. Loan programs, depending on the guidelines, can require varying amounts of neighborhood involvement. If the neighborhood approves or denies each application, collects forms, and performs inspections, the loan program can be as much work as a grant program. If the administering partner assumes these functions, the neighborhood's main responsibility may only be supervision.

The availability of staff is a key consideration. If a neighborhood does not have staff, it may want to consider hiring part-time or full-time staff, or a temporary consultant. Twenty years of loan processing responsibility may be more work than a neighborhood wishes to assume.

Evaluation

How has and how is your program meeting neighborhood objectives? How many and what kind of projects have been funded? Good record keeping and some surveying can help a neighborhood evaluate its efforts. These results can help assess the program's effectiveness, and help determine improvements. A half-way point evaluation of the Como SE Grant Program is attached in Appendix M.

A neighborhood should also evaluate the *costs* associated with a subsidized home improvement program. How much time and effort was expended by volunteers, staff, and the administering partner? How much money was spent on administration? If the neighborhood is very ambitious it could try to compare the effectiveness of its program with other housing efforts or with other NRP policy alternatives. This latter evaluation is probably not feasible for a neighborhood, but an awareness of these factors is important.

VIII. CONCLUSION

In conclusion, I would like to offer three suggestions.

1. **Keep your program simple.** A simple program helps contain administrative costs and is more user-friendly for applicants.

   A simple program is not an easy objective to achieve. As your neighborhood proceeds through the design process, potential dangers will become apparent. The natural urge is to develop a form, rule, or restriction that guards against each danger. For example, neighborhood organizers may be concerned that residents will use program money to build hot-tubs. To prevent this, organizers will be tempted to include a list of prohibited projects. Or a neighborhood may fear that undeserving, asset-rich residents who currently have low incomes could qualify for subsidized loans. To prevent this situation, the neighborhood may mandate more complex underwriting and applicant information requirements. Or a neighborhood may be concerned that some sweat equity applicants will not be qualified to perform their own labor. To protect residents from themselves, the neighborhood may require the applicant prove he or she is qualified.

   All of the above responses seem reasonable, and individually, they probably make sense. Cumulatively, however, these and other safeguards add up to a complex program. The cumulative costs of safeguards can quickly grow to exceed the benefits.

2. **Minimize eligibility restrictions**. Income, project, and housing-type restrictions are important in many circumstances, especially when the size of the fund is limited. Restrictions can, however, work against the objectives of improving the neighborhood housing stock. In many circumstances, the neighborhood is better off not restricting access. A neighborhood must be careful not to restrict themselves out of most of their market. Income, project, and housing-type restrictions may reduce the market area such that the fund is underutilized.

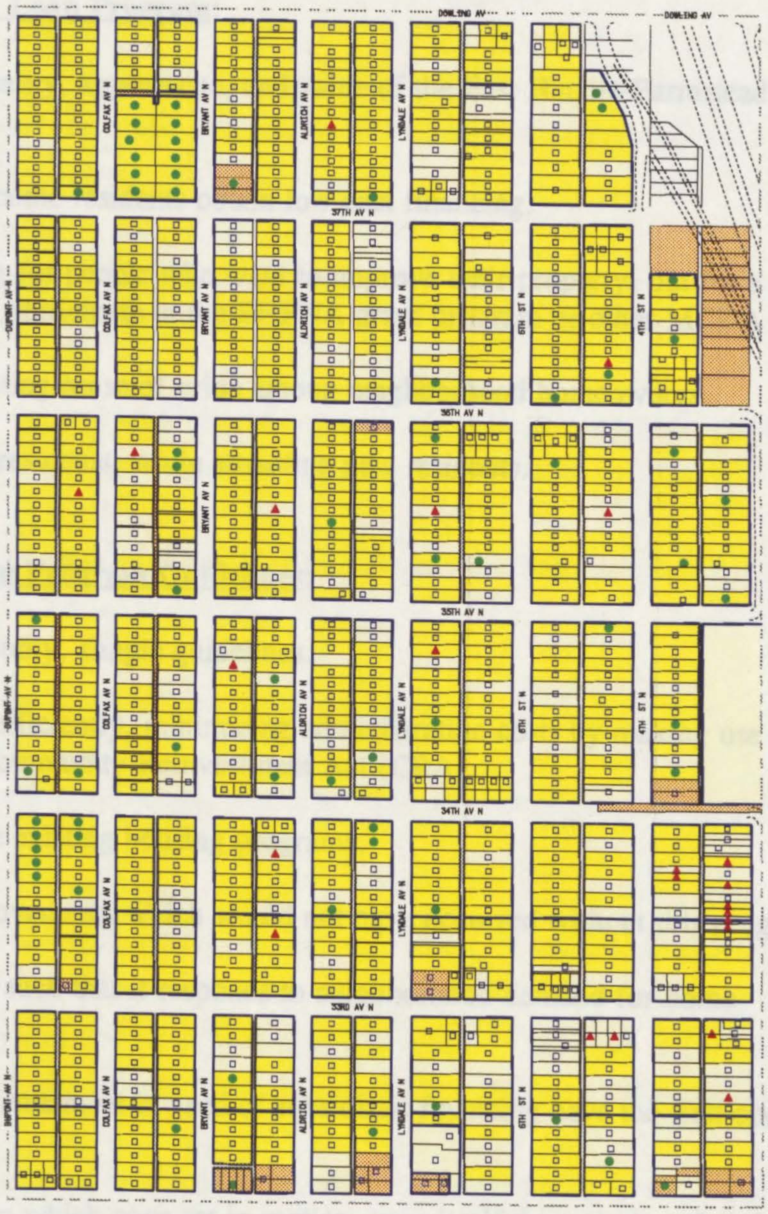
   The type of program employed affects the importance of eligibility restrictions. Grant or forgivable loan programs give money away, and so warrant strict eligibility restrictions. Loan programs need not be as strict because loans are presumably repaid. Even if a wealthy person adds a hot-tub to his or her apartment complex, the money will be repaid and the neighborhood housing stock and property values should improve somewhat. In terms of equity, the above example is not optimal, but the cost is not outrageous. More importantly, by limiting the use of restrictions, the user-friendliness and efficiency of the overall program are enhanced.

Finally, existing MCDA and MHFA programs typically have numerous eligibility restrictions. A myriad of programs already exist for extremely poor residents, code violations, and other specific kinds of improvements. If your program follows similar restrictions, it is redundant and defeats the purpose of a neighborhood-specific program.

3. **Tailor the program to your neighborhood**. NRP housing programs should be designed to respond to neighborhood-specific needs. If your program is generically modeled after existing city efforts, the city would be better off, from an efficiency stand-point, by creating one city-wide program. Researching your neighborhood and soliciting resident input are key to creating a program that fits the uniqueness of your neighborhood.

   If you are successful, you can effectively improve your neighborhood's housing stock. You can, as the NRP mission states, create a better place to "live, work, learn, and play."

MCKINLEY
HOMESTEAD AND CONDITION



HOMESTEAD

NON - HOMESTEAD

NON - RESIDENTIAL

CONDITION 1 - 4

CONDITION 5 - 6

CONDITION 7 - 9

★ MULTIPLE CONDITIONS

MAPS CAN BE REQUESTED FROM THE CITY OF MPLS GIS PRINT ROOM AT 673-2431

Appendix B

THE EAST HARRIET-FARMSTEAD NRP REVOLVING LOAN FUND

Objectives of the Loan Program:

1) Enhance the quality, appearance, and value of the East Harriet-Farmstead housing stock.

2) Assist lower income residents obtain low cost financing.

3) Provide funding for people who want to improve their property, but for a variety of reasons, could not participate in the EHFNA grant program or other MCDA programs.

4) Encourage a lasting sense of pride among neighborhood homeowners.

5) Retain existing residents, while attracting new residents.

Objectives of Loan Program Guidelines:

1) Design user-friendly, simple guidelines.

2) Disperse funds efficiently, minimizing administration costs by making use of our status within the Community Reinvestment Act (CRA).

3) Do not duplicate existing housing programs.

4) Encourage improvements which would not have occurred without this program.

5) Design program such that it responds to neighborhood demand for home improvement funds.

6) Ensure that residents most in need of subsidized financing have the first opportunity to participate.

7) Design a program which once set in motion, runs itself through the administering lending institution, with only minimal oversight from the neighborhood.

Appendix C

HOME IMPROVEMENT FUND GLOSSARY

CRA - Community Reinvestment Act. See chapter 5, page 18.

Closing - The consummation of a loan transaction in which all appropriate papers are signed and delivered to the lender, the making of a loan becomes a completed transaction, and the proceeds of the loan are disbursed.

Completion certificate - A form verifying a home improvement has been satisfactorily completed. Typically the contractor and property owner each sign-off on the form.

Co-payable check - A check made out to two or more parties, typically the property owner and contractor. All parties must endorse the check for it to be valid.

Credit report - A computerized check of credit history, including late payments, judgments, and bankruptcies.

Interest - The price paid for the borrowed use of money.

LTV - Loan-to-Value ratio. The ratio between the amount of a given mortgage loan to the appraised equity of the secured property.

Lien - A pledge of property as security for payment of a debt, commonly associated with automobile loans and as a judgment against property. In terms of housing, liens are distinct from mortgages in that mortgages are pledges taken voluntarily at closing, while liens are filed against property unilaterally by a party believing he or she is owed money.

Lien waiver - A form signed by a contractor indicating he or she has been paid and therefore waives any rights to file a lien against the homeowner's property for any unpaid debts. This form is typically required along with final disbursement of funds.

MCDA - Minneapolis Community Development Agency.

MHFA - Minnesota Housing Finance Agency.

Mortgage - A legal pledge of property as security for payment of a debt, commonly associated with housing. The mortgage automatically collects outstanding debts upon sale of the mortgaged property and entitles the lender to take possession of the mortgaged property upon default.

A mortgage is distinct from a lien in that the mortgage is a mutually agreed upon condition of a loan, while a lien is filed as a claim against property for an unpaid debt.

A mortgage enables homeowners to deduct the interest portion of their payment from their income for tax purposes.

Principal - The original amount of the loan on which interest is paid. Monthly payments are composed primarily of interest and principal.

RFP - Request for Proposals. A formal process to solicit bids to provide a service. See Appendix K.

Satisfaction of mortgage - A document issued by the bank or housing service when a debt is paid-off.

Second mortgage - A mortgage on property that already has a mortgage. The second mortgage has a secondary interest, meaning, upon sale, it receives payment only after the first mortgage has been satisfied.

Sweat equity - An arrangement whereby property owners perform their own labor, rather than employing a contractor. Property owners increase the equity of their property by the "sweat of their brow."

Title insurance - An insurance contract agreeing to indemnify the borrower against any losses incurred because of defects in the property title. Prior to issuing this policy, the title insurance company conducts a thorough examination of a property's title to ensure against defects or encumbrances against the title. Title insurance is usually taken in combination with a mortgage or sale of property.

Low Interest Revolving Loan

Assumptions: 1)$300,000 loaned first year, $200,000 the second
2) $5,000 per loan. 3) No grants, 4) Interest rate - 0%
5) Default rate-5%. 6) Interest Income Rate- 4%. 7) Term- 5 years

	Loan Amounts	Total $ Loaned	Number of loans	Design Assistance $250/loan	Grants $250/loan	Defaulted Loans 5%	Interest Income 4%	Year 1 Payment	Year 2 Payment	Year 3 Payment
Beginning Balance -		$500,000								
Year 1	300,000	300,000	60	0	0	$15,000	$8,000	$60,000	$60,000	$60,000
Year 2	$253,000	$553,000	51	0	0	$12,650	$2,400		$50,600	$50,600
Year 3	$47,350	$600,350	9	0	0	$2,368	$4,424			$9,470
Year 4	$122,127	$722,477	24	0	0	$6,106	$4,803			
Year 5	$143,192	$865,668	29	0	0	$7,160	$5,780			
Year 6	$171,754	$1,037,422	34	0	0	$8,588	$6,925			
Year 7	$145,822	$1,183,244	29	0	0	$7,291	$5,899			
Year 8	$124,657	$1,307,901	25	0	0	$6,233	$5,042			
Year 9	$140,319	$1,448,221	28	0	0	$7,016	$5,660			
Year 10	$143,793	$1,592,014	29	0	0	$7,190	$5,806			
Year 11	$143,885	$1,735,899	29	0	0	$7,194	$5,811			
Year 12	$138,312	$1,874,211	28	0	0	$6,916	$5,588			
Year 13	$136,866	$2,011,077	27	0	0	$6,843	$5,528			
Year 14	$139,320	$2,150,397	28	0	0	$6,966	$5,625			
Year 15	$139,095	$2,289,491	28	0	0	$6,955	$5,617			
Year 16	$138,158	$2,427,649	28	0	0	$6,908	$5,580			
Year 17	$137,022	$2,564,671	27	0	0	$6,851	$5,534			
Year 18	$136,775	$2,701,446	27	0	0	$6,839	$5,524			
Year 19	$136,759	$2,838,205	27	0	0	$6,838	$5,523			
Year 20	$136,247	$2,974,452	27	0	0	$6,812	$5,502			
								$60,000	$110,600	$120,070
Totals		$2,974,452	595			$148,723	$110,572			

Year 4 Payment	Year 5 Payment	Year 6 Payment	Year 7 Payment	Year 8 Payment	Year 9 Payment	Year 10 Payment	Year 11 Payment	Year 12 Payment	Year 13 Payment	Year 14 Payment
$60,000	$60,000									
$50,600	$50,600	$50,600								
$9,470	$9,470	$9,470	$9,470							
$24,425	$24,425	$24,425	$24,425	$24,425						
	$28,638	$28,638	$28,638	$28,638	$28,638					
		$34,351	$34,351	$34,351	$34,351	$34,351				
			$29,164	$29,164	$29,164	$29,164	$29,164			
				$24,931	$24,931	$24,931	$24,931	$24,931		
					$28,064	$28,064	$28,064	$28,064	$28,064	
						$28,759	$28,759	$28,759	$28,759	$28,759
							$28,777	$28,777	$28,777	$28,777
								$27,662	$27,662	$27,662
									$27,373	$27,373
										$27,864
$144,495	$173,134	$147,484	$126,049	$141,510	$145,149	$145,269	$139,695	$138,193	$140,635	$140,435

Year 15	Year 16	Year 17	Year 18	Year 19	Year 20					
Payment	Payment	Payment	Payment	Payment	Payment	Payment	Payment	Payment	Payment	Payment
$28,777										
$27,662	$27,662									
$27,373	$27,373	$27,373								
$27,864	$27,864	$27,864	$27,864							
$27,819	$27,819	$27,819	$27,819	$27,819						
	$27,632	$27,632	$27,632	$27,632	$27,632					
		$27,404	$27,404	$27,404	$27,404	$27,404				
			$27,355	$27,355	$27,355	$27,355	$27,355			
				$27,352	$27,352	$27,352	$27,352	$27,352		
					$27,249	$27,249	$27,249	$27,249	$27,249	
$139,495	$138,350	$138,092	$138,074	$137,562	$136,992	$109,360	$81,956	$54,601	$27,249	
					20 years					

Appendix E

RECEIVED DEC

(faxed)

COMMUNITY REINVESTMENT FUND

December 21, 1994

Ms. Darcy Seaver and Mr. Ryan Pulkrabek
East Harriet-Farmstead Neighborhood Association
3612 Bryant Avenue South
Minneapolis, Minnesota 55409

Dear Darcy and Ryan:

Thank you for the opportunity to work with you on your neighborhood revitilization program. As the Community Reinvestment Fund creates a secondary market for economic development and affordable housing loans, the subject submission will address only the part of the RFP which refers to the secondary market sales.

CRF is a non profit organization which supports non profit and governmental units which are involved in lending for economic development. We work with organizations throughout the country to recapitalize their revolving loan funds, thereby allowing them to relend their funds at a faster rate than would otherwise be possible.

As I had previously presented to Ryan, CRF has the ability to purchase loans on an individual or a portfolio basis. Due to the nature of the portfolio and the collateral coverage provided for the loans, I believe that the portfolio purchase is the best option for EHFNA's program. While I can not at this time commit CRF to purchasing loans from EHFNA, I can provide you the approximate structure underwhich CRF would purchase a portfolio of loans.

Based on the $500,000 loan portfolio bearing interest rates of 4% for five years, EHFNA could anticipate CRF purchasing a senior interest in the portfolio as follows:

- First, CRF would calculate the monthly cash flows from the portfolio. With the above assumptions, the portfolio would generate a monthly income of $9,208.
- Second, CRF would discount the monthly income to reflect a market rate of interest. Assuming a 10% market rate of interest, the five years of cash flows would result in a loan portfolio market value of approximately $433,400.
- Finally, CRF would assess the risk of the portfolio -- determine the probability that all of the payments would be paid as agreed. Based on the underwriting standards presented, it could be expected that CRF would advance approximately 80% against the market value of the portfolio. Based on the above example, the amount advanced by CRF to EHFNA would aproximate

2400 Foshay Tower 821 Marquette Avenue Minneapolis, Minnesota 55402 (612) 338-3050 FAX 338-3236

$340,000, less expenses. Expenses, which include legal and bond underwriting expenses, would be approximately 3% to 4% of the transaction amount.

Under this purchase structure, CRF would purchase the whole portfolio of loans. EHFNA would retain an subordinate interest in the portfolio. All loan payments would be applied to reduce CRF's advancement to EHFNA. Once CRF's advancement is fully repaid, all remaining loan payments would revert back to EHFNA. Assuming no defaults in the portfolio, EHFNA would receive the final 16 months of loan payments totaling approximately $150,000.

Prior to purchasing any loans, CRF will need to present any purchase to CRF's Loan Advisory Committee for approval and to its Board of Directors for final approval.

If you have any further questions about our program or you need any further clarifications, please do not hesitate to call.

Sincerely,

Gary W. Holmquist
Senior Financial Analyst

4/5/95

Appendix F

Exhibit A

Terms of the EHFNA Revolving Loan Program

- $500,000 of NRP funds to be loaned to neighborhood residents for home improvements ($450,000 maximum the first year).
- 4 % interest rate.
- Five year term, with possibility of extensions.
- Minimum size loan of $1,000 and maximum of $15,000. More than one loan per household permitted upon payoff of previous loan, and upon availability of funds.
- Loan funds are restricted to households with total household income less than 120% of median household income for that family size. Figures updated annually.

Family size	120% of median household income
1	$42,840
2	$48,960
3	$55,080
4	$61,200
5	$66,120
6	$71,040
7	$75,840
8	$80,760

- Eligible properties include all residential properties (including multifamily) located within the boundaries of East Harriet-Farmstead where the owner resides in that property or resides within the boundaries of the East Harriet-Farmstead Neighborhood. Owners of more than one property remain subject to the $15,000 total loan maximum, although that amount may be split between multiple properties.
- Any permanent home improvement is eligible. The financial institution is to refer any requests for work where eligibility is uncertain back to the EHFNA Revolving Loan Committee for final approval. Furniture and non-permanent home appliances are not eligible.
- Sweat equity is permitted, but labor is not compensated. A copy of the invoice and any appropriate city permit(s) are required for disbursement. (Sweat equity refers to an arrangement where the property owner (not a contractor) performs the home improvement.)

- The program will tentatively have two application deadlines the first year, followed by a first-come, first-served on-going process thereafter.

- Borrowers must provide a tax return, property tax statement, and one project bid with the application. Borrowers must provide a second bid by the time of closing.

- The property owner has 120 days following closing to ensure completion of the work.

- If the final bill exceeds the amount closed on, the borrower may re-originate the loan, but the borrower must pay the origination fee. This approval is contingent on: the borrower's ability to qualify for the larger amount; availability of funds; and the $15,000 maximum.

- Payment to the contractor will be made after completion of work. The following items must be received before final disbursement of funds:
  1) final invoice.
  2) completion certificate signed by the property owner.
  3) completion certificate signed by the contractor.
  4) signed copies of all required city permits.
  5) final inspection verification form.
  6) lien waiver.

  Items 1 through 5 must be provided to the inspector to begin preparation of the check. Item 6 must be provided before disbursement of proceeds.

- The neighborhood, be it with staff, volunteers, or third-party inspectors will verify completion of the work. A third-party inspector retained by the neighborhood will be available to inspect projects in cases where the property owner is not satisfied with a project. The neighborhood will pay for this inspection.

  The neighborhood also reserves the right to have any projects inspected without a request from the property owner.

- Banks will approve or deny loans based on credit report, income, and collateral criteria provided by the EHFNA Revolving Loan Committee. Any denied resident has the right to appeal the decision to the EHFNA Revolving Loan Committee.

- The neighborhood will pay the origination fee in the form of a direct debit. Monthly servicing fees will be paid by the borrower. Mortgages and other administration fees are to be rolled into the loan amount.

- Upon depletion of neighborhood allocated funds, and upon request from the EHFNA Revolving Loan Committee, the administering partner will lend their funds at current bank interest rates. The EHFNA will buy down the interest charged by the bank for the applicant to a guaranteed rate of 4%. This differential will be debited from the neighborhood's account. The origination fee as described in Exhibit B, page 3 applies to these loans, but the borrower will not be assessed a monthly service fee.

Underwriting for these loans will follow normal bank guidelines. Other than underwriting differences, applicants will experience the same terms.

4/5/95

Exhibit B

Scope of Services

EHFNA Responsibilities:
1) Develop program guidelines and supervise implementation.

2) Assist in marketing the program to the neighborhood and referring applicants to the bank.

3) If demand for funds exceeds supply of funds during the first year, prioritize the loans.

4) Periodically review scope of work appeals and loan denial appeals.

5) Review overdue accounts and refer for collection.

6) Ensure that all completed property is inspected prior to disbursement of funds.

7) Maintain accounts at the administering bank for the duration of the program.

Administrator Responsibilities:
1) Act as the EHFNA fiscal agent for the program.

2) Receive the NRP funds and deposit them in interest bearing accounts.

3) Process the loan applications.

4) Verify that applicant household income is at or below 120% of median household income based on the tax return.

5) Determine if applicant has the ability to repay the loan based on the general formula: gross income x 42% minus any obligations. If applicant does not qualify for a five-year loan, determine if applicant can qualify for a longer term loan (up to 10 years).

6) Run a credit report and title report on the applicant. Deny applicants who have had more than four 60-day overdue accounts in three years, a bankruptcy in the last two years, or any mechanics liens or judgments on the property.

7) Verify that the applicant lives within the boundaries of the East Harriet-Farmstead Neighborhood.

8) Verify that the applicant's LTV ratio does not exceed 120% exclusive of closing costs.

9) Review description of the work and verify that it is a permanent home improvement. If the eligibility of any work is in question, refer it back to the EHFNA Revolving Loan Committee for final determination.

10) File the appropriate mortgage documents (registration, title report, filing, satisfaction of mortgage) for loans exceeding $4,000. Do not file a mortgage for loans less than $4,000 unless the applicant requests a mortgage be taken.

11) Approve or deny the loan. Inform applicant of ability to appeal the decision to the EHFNA Revolving Loan Committee.

12) Originate and close on loans.

13) Prepare a check for the contractor upon notification from the inspector. Mail this check to the inspector for disbursement.

14) Service loans in accordance with standard industry practices, including prompt setup of loans and appropriate coupon books. Send reminder letters or make reminder phone calls when payments are approximately 30 days overdue and 60 days overdue. Refer any loans 90-day overdue back to the EHFNA Revolving Loan Committee for review and disposition. Disposition of bad loans will be the responsibility of the EHFNA. Under certain circumstances the Committee will direct the collection agency to foreclose on the property.

15) Manage loan fund and provide the EHFNA with monthly reports which include:
- -cash flow information:
    - a) amount loaned, b) repayments received,
    - c) investment interest earnings, d) fees assessed to neighborhood.
- -loan activity data:
    - a) names of recipients, b) list of all ninety (90) day past due loans.

18) Originate additional loans from the loan payments received.

Appendix G

MONTHLY PAYMENTS GIVEN DIFFERING INTEREST RATES, LOAN SIZES, AND TERMS

Loan Amount and Term	Interest rates 0%	2%	4%	6%	8%	10%	12%
$2,500 - 5 years	$42	$44	$46	$48	$50	$53	$56
$2,500 - 10 years	$21	$23	$25	$28	$30	$33	$36
$5,000 - 5 years	$83	$88	$92	$97	$101	$106	$111
$5,000 - 7 years	$60	$64	$68	$73	$78	$83	$88
$5,000 - 10 years	$42	$46	$51	$56	$61	$66	$72
$7,500 - 5 years	$125	$131	$138	$145	$152	$159	$167
$7,500 - 7 years	$89	$96	$103	$110	$117	$125	$132
$7,500 - 10 years	$63	$69	$76	$83	$91	$99	$108
$10,000 - 5 years	$167	$175	$184	$193	$203	$212	$222
$10,000 - 7 years	$119	$128	$137	$146	$156	$166	$177
$10,000 - 10 years	$83	$92	$101	$111	$121	$132	$143
$10,000 - 15 years	$56	$64	$74	$84	$96	$107	$120
$15,000 - 5 years	$250	$263	$276	$290	$304	$319	$334
$15,000 - 7 years	$179	$192	$205	$219	$234	$249	$265
$15,000 - 10 years	$125	$138	$152	$167	$182	$198	$215
$15,000 - 15 years	$83	$97	$111	$127	$143	$161	$180

Appendix H

HUD MEDIAN HOUSEHOLD INCOME GUIDELINES

Family Size	50% (Section 8) of median	80% of median	100% median	125% of median
1	$17,850	28,150	35,700	44,625
2	20,400	32,150	40,800	51,000
3	22,950	36,200	45,900	57,375
4	25,500	40,200	51,000	63,750
5	27,550	43,400	55,100	68,875
6	29,600	46,650	59,200	74,000
7	31,600	49,850	63,200	79,000
8	33,650	53,050	67,300	84,125
9	35,700	57,150	71,400	89,250
10	37,750	60,400	75,500	94,375

Appendix I

EAST HARRIET-FARMSTEAD NEIGHBORHOOD ASSOCIATION (EHFNA)
NEIGHBORHOOD REVITALIZATION PROGRAM
REVOLVING LOAN PROGRAM
3612 Bryant Avenue South
Minneapolis, MN 55409

Request for Proposals
for

Providing administering and trust services for a revolving loan program.

Questions regarding this request for proposal should be directed to Darcy Seaver or Ryan Pulkrabek at 824-9350.

Proposals should be delivered to the EHFNA at the address listed below, on or before:

4:00 PM, Friday, December 30, 1994

3612 Bryant Avenue South
Minneapolis, MN 55409

1) Intent: The intent of this RFP is to select one financial institution to provide loan administering and trust services for the EHFNA Revolving Loan Fund.
2) Proposal: Please use the attached proposal form (Exhibit C) to complete the proposal. If a service requirement cannot be met by your institution, please write "no proposal" by that requirement. Include an alternative equivalent service in an attachment if desired.
3) Contract duration: The selected bank shall be designated to administer the neighborhood's loan program for an initial five-year term beginning March 1, 1995.
4) Contract terms: The terms of the EHFNA are attached in Exhibit A. The EHFNA reserves the right to adjust these terms as needed after consultation with the bank.
5) Contract responsibilities: The EHFNA and administrator Scope of Services are attached in Exhibit B.
6) Cancellation of Contract: The agreement may be canceled at any time by either party upon ninety (90) days prior written notice.
7) Right to reject proposals: The EHFNA reserves the right to reject any and all proposals, and to accept any item or combination of items.
8) Execution of agreement: If the selected institution does not execute an agreement within thirty (30) days after being notified of selection, the EHFNA reserves the right to select the next most qualified institution.

Exhibit C

Proposal Cost Breakdown:

	Closing	Servicing
***Hard costs per loan*:**		
Credit Bureau Report................................	________	
Coupon Book..	________	
Postage per month..................................		________
Computer service per month....................		________
Mortgage registration fee per $1000........	________	
Title Insurance per $1000........................	________	
Filing of Mortgage..................................	________	
Filing of Satisfaction of Mortgage..........	________	
***Soft costs per loan*:**		
Origination processing............................	________	________
Servicing costs per loan per month..........	________	________
Other fees (please specify)__________		
________________________________	________	________
TOTAL COST PER LOAN	________	________

Interest Income
The EHFNA intends to receive all interest income in order to increase the amount of loans to residents.

We envision two types of accounts: 1) General current account - an equity and/or fixed income account managed by the bank; and 2) Custodial dispersal/receipt account - a demand deposit account for dispersal and receipts established as a zero balance account with the available balance deposited in the general current account at the end of each business day.

If you are capable of managing the trust functions, please provide information about the options you could provide to the EHFNA. Include rate of return and transactions cost information. Please attach your trust proposal to this page.

BOTTINEAU NEIGHBORHOOD REVITALIZATION PROGRAM

REQUEST FOR PROPOSAL

for

THE PROCUREMENT OF THE PROFESSIONAL SERVICES
OF A LOAN ORIGINATION AND SERVICING COMPANY

The Bottineau Neighborhood Revitalization Program (Bottineau NRP) is seeking proposals for the PROCUREMENT OF PROFESSIONAL SERVICES OF A LOAN ORIGINATION AND SERVICING COMPANY.

Questions regarding the Scope of Services of this Request for Proposal should be directed to:

Hillary Freeman
673-5217

PROPOSAL DEADLINE

Proposals should be delivered to the Bottineau Housing Committee at the address listed below, on or before:

4:00 PM, Local time, on Friday, January 13, 1995

PROPOSALS SHALL BE SUBMITTED IN A SEALED ENVELOPE. ALL PROPOSALS MUST BE RECEIVED BY THE DUE DATE AND TIME. NO LATE PROPOSALS WILL BE ACCEPTED. PLEASE MARK THE OUTSIDE OF YOUR RETURN ENVELOPE WITH THE BID CONTENTS, DUE DATE AND TIME.

DELIVER 5 COPIES OF PROPOSALS TO:

Bottineau Housing Committee
c/o Hillary Freeman
NRP/C.A.R.E.
105 5th Ave. S., Suite 425
Minneapolis, MN 55401-2585

The contract shall run for one year, with an option to renew for one year with no increase in fees. Thereafter, annual renewals may be renegotiated.

Qualifications:

Lenders/Servicers responding to this request for proposal shall provide the following:

1. Name, mailing address and telephone number of organization. Name of person preparing proposal.
2. Demonstrated ability to administer and service a loan portfolio for three-year-period with a minimum size of twenty loans.
3. Demonstrated financial stability as evidenced through the organization's financial statement (i.e., 2-3 years of fiscal year-end statements plus current interim financial statements).
4. Documents that the organization is licensed and bonded.
5. Schedule of fees that provides sufficient detail to allow Bottineau Housing Committee to evaluate proposals. The monthly payment to the Lender/Servicer for fees shall be based upon receipt by Bottineau Housing Committee of a monthly (once every 30 days) invoice which shall indicate the number of transactions handled by the Lender/Servicer and the resultant cost.

PROPOSAL COST BREAKDOWN

- Loan origination on a per file basis $________
- Servicing costs on loans on a per file per month basis $________

BACKGROUND INFORMATION

The Bottineau neighborhood in Northeast Minneapolis is bordered by the Mississippi River on the west, University Avenue on the east, Lowry Avenue on the north and 17th Avenue NE on the south.

The Bottineau NRP is seeking proposals for the procurement of the professional services of a loan origination and servicing company for both its NRP Early Access and the Neighborhood Action Plan. $250,000 has been set aside for the Early Access program and an additional $425,000 in the full action plan for home rehabilitation loans. The Early Access program will begin in March, 1995, with the full Action Plan ready for implementation by September, 1995.

Lenders who respond and indicate a willingness to provide some of their own dollars in addition to the NRP dollars for the loan pool will be given more favorable consideration.

The goals of the loan program are to:

- improve condition of existing housing.
- stabilize property values.
- improve safety/handicap access/senior livability.
- increase job opportunities for local contractors, building trades members, other craftspeople.
- improve image of neighborhood to attract new home owners.

SCOPE OF SERVICES

Bottineau Housing Committee NRP Responsibilities

1. Develop program guidelines.
2. Develop intake/application form.
3. Market program.
4. Select applicants.
5. Refer applicants to loan lender.
6. Approve Lender/Servicer monthly request for services and fees. Invoices submitted by lender/servicer will consist of two parts as follows:
   a. Requests for reimbursement for services, based on documentation attached.
   b. Request for approval to release MCDA funds for program progress submittals.

Lender/Servicer's Responsibilities for Loans

1. Act as Bottineau Housing Committee fiscal agent for this program. Receive NRP funds and establish loan fund.
2. Make loans on behalf of Bottineau Housing Committee from loan fund. Receive referrals from Bottineau Housing Committee which include the intake/application form with authorized signature, scope of work, amount of loan, and rate and term.
3. Establish client file and process applications.
4. Verify sign-off on permit work.
5. Originate loan, including execution of promissory note.
6. Issue checks to homeowners and contractors, with sufficient notification and collect lien waivers.
   a. Issue check to contractor for contract amount upon verification of city approval of work.
   b. Where the homeowner is performing the work, checks may be issued for bills of materials and supplies, at the request of the homeowner.
   c. Reimbursement check will be issued to homeowner upon submission of valid receipts from suppliers and verification that work has been approved by City Inspector(s).
7. Collect all payments due under the terms of each loan.

8. Manage loan fund and provide Bottineau Housing Committee with quarterly reports to include:
   a. who has received loans.
   b. how much money has been loaned.
   c. how much has been allocated by category.
   d. amounts available through repayments.
   e. past due loans.
9. Lender/Servicer will be responsible for collecting the remainder of the loan that is owed to Bottineau Housing Committee if and when the property is sold.
10. Submit other reports and information as may be required by NRP and MCDA.

SELECTION CRITERIA

Submittals of proposals will be evaluated according to the following criteria:

1. Demonstrated ability to meet the neighborhood objectives.

2. Cost effectiveness.

3. Lenders who respond and indicate a willingness to provide some of their own dollars in addition to the NRP dollars for the loan pool will be given more favorable consideration.

Appendix J

TCF BANK
fsb

December 30, 1994

East Harriet-Farmstead Neighborhood Association
3612 Bryant Avenue South
Minnepolis, MN 55409
Attn: Ryan Pulkrabek

Dear Ryan,

TCF Bank Minnesota, FSB. appreciates the East Harriet-Farmstead Neighborhood Associations (EHFNA) interest in having TCF administer your revolving loan fund program. TCF welcomes this opportunity to forge a mutually beneficial partnership with the EHFNA through the neighborhood revitalization program (NRP) process.

TCF Bank has a long standing committment to the communities and neighborhoods we serve and is pleased to respond to your request for proposal. We feel TCF's financial stability, lending experience, and committment to affordable community lending will prove to be valuable assets for the success of your program. TCF Bank will work diligently with the EHFNA in the development of its revolving loan fund to insure its success.

Sincerely,

William A. Sarvela
CRA Agent
TCF Bank Minnesota, FSB

TCF Bank Minnesota fsb • 801 Marquette Avenue Minneapolis Mn 55402-3475 • (612) 661-6500

TCF BANK MINNESOTA, FSB
PROPOSAL FOR ADMINISTRATION OF REVOLVING LOAN PROGRAM
EAST HARRIET-FARMSTEAD NEIGHBORHOOD ASSOCIATION (EHFNA)

I. TCF Bank Minnesota, FSB. proposes to provide loan administration services for the EHFNA revolving loan fund (RLF). TCF Bank will administer the EHFNA, RLF in accordance to terms agreed upon between TCF Bank and the EHFNA.

TCF Bank will act as the EHFNA's fiscal agent for the program. TCF will take all applications for the program referred by EHFNA and underwrite the loan applications in accordance to TCF Bank's standard underwriting guidelines. Exceptions to TCF's standard underwriting guidelines may be proposed by the EHFNA for this program. TCF will verify that the applicant and their proposed improvements are eligible for participation in the EHFNA program. All loan files will be presented to the EHFNA Revolving Loan Committee with TCF's recommendation of approval or denial. The EHFNA revolving loan committee will make the final approval or denial decision on all loan requests.

TCF Bank will originate and service all approved loans. All loan funds will be disbursed at loan closing or after any recission period if secured by real estate. The first 1/3 to 1/2 of all loan disbursements will be in the form of co-payable checks to borrower and contractor. The remainder of funds will be disbursed directly to the borrower. For sweat equity projects all loan funds will be disbursed directly to the borrower. The EHFNA will be responsible for the collection of all documentation it may require in relation to work completion. TCF will provide the EHFNA with copies of pertinent information on closed loan files, i.e: application, loan note, estimate etc.. All loans that become 60+ days delinquent will be referred to the EHFNA for purchase from TCF and further collection activity.

TCF Bank will provide the EHFNA with monthly reports on the RLF performance as appropriate. TCF will also submit reports and information as may be required by the NRP or MCDA. TCF will originate loans up to the full value of the RLF deposit account.

II. TCF Bank will provide loans at a 4% fixed interest rate as set forth by the EHFNA, RFP. TCF Bank proposes the following costs to the EHFNA for the administration of its RLF. The EHFNA will provide TCF Bank with an administration servicing fee on each loan equal to the total loan note interest difference between 4 and 8%. This would be a one time servicing fee for each loan provided to TCF at the end of each month. An example of these charges is attached as exhibit A. In no case will the interest subsidy exceed $1,000 for any loan.

The interest subsidy between 4 and 8% will be the only servicing fee charged to the EHFNA by TCF Bank with the exception of the mortgage filing fees on real estate transactions. TCF recommends the EHFNA pass on these standard closing costs for real estate transactions to each borrower. TCF Bank could finance these closing costs for each borrower in the loan amount if approved by the EHFNA. If the EHFNA does not want the borrower to incure these expenses TCF could provide a separate billing for each closed loan to the EHFNA for these costs.

TCF Bank Minnesota, FSB. will receive and manage the EHFNA's NRP funds for this program. TCF proposes that the EHFNA deposit these funds into certificates of deposit with varying maturity dates. This would allow the EHFNA to receive the maximum available interest return on their funds. Following is an example of a deposit account scenerio:

Deposit Amount	Certificate Term	Annual Percentage Yield
$100,000	3 months	3.75%
$100,000	6 months	4.25%
$100,000	8 months	5.26%
$100,000	10 months	4.25%
$100,000	13 months	6.25%

As each CD reaches maturity the balance could be rolled into a longer term, higher yield CD; i.e. the three month CD is rolled to a seventeen month CD at 6.55% APY, minus any loan default balances owed TCF due to charge off.

This proposal is subject to approval by TCF management, the EHFNA, and is open to negotiation between the EHFNA and TCF Bank.

EXHIBIT A

LOAN AMOUNT	TERM	4% TOT. NOTE	8% TOT. NOTE	INTEREST DIFFERENCE	% OF LOAN
1,000.00	12 MO	$1,021.80	$ 1,043.76	$21.96	2.20
2,000.00	24 MO	2,084.40	2,170.80	86.40	4.32
3,000.00	24 MO	3,126.48	3,256.32	129.84	4.33
3,000.00	36 MO	3,188.54	3,384.00	195.46	6.51
4,000.00	36 MO	4,251.51	4,512.24	260.79	6.52
4,000.00	48 MO	4,335.18	4,687.20	352.02	8.80
5,000.00	36 MO	5,313.96	5,640.48	326.52	6.53
5,000.00	48 MO	5,418.72	5,858.88	440.16	8.80
6,000.00	36 MO	6,377.04	6,768.36	391.32	6.52
6,000.00	48 MO	6,502.56	7,030.56	528.00	8.80
6,000.00	60 MO	6,629.40	7,299.00	669.60	11.16
8,000.00	84 MO	9,185.44	10,473.12	1,287.68	12.50*
10,000.00	96 M0	14,042.05	16,285.44	2,243.39	10.00*
15,000.00	96 MO	17,552.56	20,356.80	2,804.24	6.66*

$1,000.00 MAXIUM INTEREST SUBSIDY

*PERCENTAGE FIGURED FROM $1,000.00 MAXIUM INTEREST SUBSIDY.

Marquette Bancshares, Inc.

3900 Dain Bosworth Plaza
60 South Sixth Street
P.O. Box 1000
Minneapolis, MN 55480-1000
(612) 661-3900

January 5, 1995

Mr. Ryan Pulkrabek
Ms. Darcy Seaver
East Harriet Neighborhood Association
3612 Bryant Avenue South
Minneapolis, MN 55409

Dear Ryan and Darcy:

Thank you for the opportunity to respond to your RFP and for allowing an extension to the deadline. On January 1, 1995, eleven Marquette banks were merged into one charter The new bank, Marquette Bank, N.A., has 28 offices including our new Lake Street office at Bloomington and Lake. Needless to say, there was a flurry of year-end activity that made new projects difficult. We are still in the process of finalizing our loan servicing, but I think that the numbers are quite accurate as shown on exhibit C.

Financial Institution Qualifications

1) All correspondence should be directed to:

   Chris Andersen
   Marquette Bank, N.A.
   3900 Dain Bosworth Plaza
   60 South 6th Street
   Minneapolis, MN 55402
   (612) 661-3948

2) Organization is bonded. See attached.

3) There are no financial statements at this time due to the new bank structure. I have attached outline information for Marquette Bancshares, Inc., the parent company for Marquette Bank, N.A.

4) The new CRA statement for Marquette Bank, N.A. is attached.

Account Information

Marquette Bank has comprehensive cash management services as well as trust and investment departments. You may select from a wide variety of investment options for your general account (see attachment). The zero balance account can handle all daily loan disbursements and payments.

Monthly fees for the accounts are:	$30 for the General Account
	$15 for the Zero Balance Account

Scope of Services

Marquette bank can handle all administrator responsibilities as defined on exhibit B.

Proposal Cost Breakdown

See Exhibit C attached with proposed cost breakdown. Additional fees to be negotiated for costs relating to collections and/or foreclosure procedings.

Marquette Bank is very interested in working with you to serve the deposit and credit needs of the East Harriet-Farmstead Neighborhood through the revolving loan program and other products. I look forward to meeting with you. Please call me with any questions.

Sincerely,

Chris Andersen
Vice President
Community Development

Exhibit C

Proposal Cost Breakdown:

	Closing	Servicing
***Hard costs per loan*:**		
Credit Bureau Report	10.00*	
Coupon Book	2.50	
Postage per month		25
Computer service per month		1.00
Mortgage registration fee per $1000	2.30	
Title Insurance per $1000	1.75	
Filing of Mortgage	31.50 abstract or 32.50 torrens	
Filing of Satisfaction of Mortgage	27.50	
***Soft costs per loan*:**		
Origination processing	100.00	—
Servicing costs per loan per month	—	7.00
Other fees (please specify)__________		
______________________________	—	—
TOTAL COST PER LOAN	175.55	8.25

* may vary up or down

Interest Income
The EHFNA intends to receive all interest income in order to increase the amount of loans to residents.

We envision two types of accounts: 1) General current account - an equity and/or fixed income account managed by the bank; and 2) Custodial dispersal/receipt account - a demand deposit account for dispersal and receipts established as a zero balance account with the available balance deposited in the general current account at the end of each business day.

If you are capable of managing the trust functions, please provide information about the options you could provide to the EHFNA. Include rate of return and transactions cost information. Please attach your trust proposal to this page.

Leverage

The EHFNA wishes to maximize the amount of funds available to neighborhood residents with additional funds from the administering bank.

1) Would your institution be willing to supplement neighborhood funds with a grant?______If yes, how much? $______________

Grant decisions are made independently of loan decisions

2) What amount of your funds would your institution be willing to loan to residents at this fund's terms upon depletion of the neighborhood's $500,000? $ 0

3) What amount of your funds would your institution be willing to loan upon depletion of the $500,000 if the EHFNA reimbursed you the interest differential between 4% and two points above prime? $ unlimited, assuming good credit quality

4) Does your institution have the capability to sell these loans on the secondary market? If so, please include a proposal assuming $300,000 of the portfolio is sold.

Marquette does not sell these loans on the secondary market.

Appendix K

NRP LOAN PROGRAM SUMMARIES (as of 3/15/95)

East Harriet-Farmstead

A home improvement revolving loan fund of $500,000.

Terms
4% interest rate
5 year term, with bank flexibility to extend up to 10 years to help residents qualify.
Minimum of $1,000 and maximum of $15,000.

Eligible residents
Residents with total household income less than 120% of median household income.

Eligible properties
All residential properties contingent upon the owner residing within the neighborhood. Any permanent home improvement is eligible.

Administration
All processing and approvals are handled by the bank based on guidelines supplied by the neighborhood. A final bank decision has not been made by 3/15/95. Residents have the right to appeal any decision to the Neighborhood.

Experience
The EHFNA's program is scheduled to begin in May, 1995.

Contact person: Darcy Seaver - 824-9350.

Folwell

A $200,000 forgivable loan program

Terms
0% forgivable loan
Loan is forgiven gradually until it is completely forgiven after five years
No minimum amount, maximum loan of $5,000.

Eligible residents
A system of three separate lotteries.

a) 30% of funds disbursed to low income residents in the first round
b) 30% of funds disbursed to residents willing to match the forgivable loan amount
c) 40% of funds disbursed in the final round. Final round open to all residents and all applicants from the first two rounds who were not chosen.

Administration
Folwell handled all administration themselves. They would pay a neighborhood volunteer $50 to process an application. Once the project was complete, inspected, and all forms were obtained, the volunteers would go down to the MCDA to collect the disbursement.

Folwell filed their own mortages. The mortgages specify how much of the loan is due upon home sale within the five year period.

Experience
Folwell disbursed about 55 loans.

Contact person: Al Saless - 529-1640

Jordan

Housing Funding of $600,000 per year for six years. $300,000 for home improvements and $300,000 for home purchase/rehab. A city bond program provides funds for another purchase/rehab type program.

Terms
Sliding interest rate based on income. They anticipate adjusting the interest rate downward and offering some deferred loans.
No maximum loan amount.
The average loan has been about $7,500.

Eligible work
Any home improvement.

Eligible participants
Owner occupants. Rental property not eligible, though they hope to include rental in the future.

Administration
Northside Neighborhood Housing Services administers all Jordan housing programs.

Experience
About 40 loans have been disbursed. The neighborhood is considering adjustments to increase loan activity.

Contact person: Darlene Walser - 521-8436.

Longfellow Community

Early Access funds of $1 million, with $500,000 for revolving loans, $400,000 for grants, and $100,000 for mortgage assistance.

Terms
A sliding interest rate ranging between 0% to 6% for loans based on income.
$10,000 maximum loan per household.
Repayment term determined by Southside.

Eligibility
The Program prioritizes projects in the following order: 1) structural, 2) mechanical and toxic abatement 3) energy, steps and sidewalks, garages, exterior paint.

Applicants are assigned to the loan or grant pool based on income. Within that pool, each applicant will be prioritized on a point system. If funds run out within a group with equal points, a lottery will be held.

Administration
Southside Neighborhood Housing Services services the loans. The neighborhood handles approvals internally based on their point system, and forwards to Southside. Southside advises the neighborhood if applicants should not qualify based on insufficient income or equity. No credit checks are run. Mortgages are filed.

Experience
Longfellow reports strong preliminary demand for the program with over 200 people on a waiting list. Longfellow is a community of four neighborhoods with a population of about 22,000. Longfellow anticipates initiating the program in April.

Contact person: Mary Ann Schoenberger - 722-4529

Lyndale

$100,000 of mortgage assistance and rehab grants (deferred loans).

Terms
1) Mortgage assistance - offers grants of up to $10,000 to assist low income people pay closing costs or down-payments (see experience). Owners repay half this grant over five years at 3% interest. The remaining half is forgiven gradually between the 4th and 7th year.

2) Rehab - offers grants to rehab residential properites. The maximum value of this grant is $3,000 and the term is five years. These grants are to be repaid if the homeowner sells the home before the five year term expires.

A written agreement specifying the financial arrangement is drawn up for both programs.

Eligible residents
No minimum income needed to apply. Each application evaluated individually based on target area, code violations, safety, and income.

Eligible properties
Mortgage program - available for purchase of predetermined, site specific, blighted properties.

Rehab program - Initial lottery for target area applicants. Second lottery for all others. Exterior and interior acceptable, but no luxury items.

Administration
The neighborhood, along with a paid staff member, administer the program.

Experience
The mortgage program initially focused on applicants, rather than specific properties. Only three of the original 20 applicants ever then qualified for a mortgage. The neighborhood has since decided to redirect its efforts to specific properties and make sure applicants are pre-qualified before they apply to the neighborhood.

The housing rehab program had 150 applicants for the approximately 50 available grants.

Contact person: Harry Jensen - 824-0401.

Phillips

$800,000 for home improvement loans.

Terms
7% to 9% sliding interest rate based on income.
$10,000 maximum loan.
MHFA purpose guidelines (see administration).

Eligible properties
Owner occupied. Luxury projects excluded.

Eligible residents
Property owners which do not qualify for conventional loans or MHFA programs (see administration).

Administration
Phillips has a guarantee program with TCF. Each Phillips applicant is referred by TCF to a) a regular TCF product, b) a Phillips guaranteed loan, or c) an MHFA product - depending on what that resident qualifies for. Under tier (b) TCF lends TCF money to Phillips residents who can not qualify for conventional TCF products or MHFA financing. Phillips guarantees these loans with its $800,000.

Experience
The Phillips program was recently approved, and will begin soon.

Contact person: Doc Davis - 874-1711.

Whittier

A total of $5,000,000 available for all housing, $1 million from NRP, $1 million from NHS, and $3 million from MCDA.

Terms
8.6% to 9.6% mortgages for first time home buyers.
6% loans for rehab loans.
Loan duration flexible.

Eligible residents
No income requirements.

Eligible properties
Owner occupied properties as large as four-plexes. Any home improvement project is eligible. (Whittier recently implemented an alternative program for **rental** properties with a 3% interest rate and 10 year term. Administered by Marquette).

Administration
Southside Neighborhood Housing Services administers all aspects of the program.

Experience
The program began in July and has disbursed one loan to date. They are considering adjustments to increase loan activity.

Contact person: Chris Brogan - 871-7756.

Neighborhood Grant Programs

Neighborhood	Contact person	Phone number
Bancroft	Stephanie Schmidt	724-5313
Como SE	Kim Vohs	722-5896
East Harriet-Farmstead	Darcy Seaver	824-9350
Kingfield	Margaret Metzdorff	929-4742
Logan Park	Kim Vohs	722-5896
Powderhorn Park	Scott Hawkins	722-4817
Seward	Bernie Waibel	338-6205

EAST HARRIET-FARMSTEAD

NEIGHBORHOOD ASSOCIATION

Appendix L

The boundaries of our neighborhood are: ...th Street on the north ...th Street on the south; Lake Harriet and ...Calhoun on the west to Lyndale Avenue on the east.

...Bryant Avenue So.
...apolis, MN 55409
612.824.9350
Fax line available.

HOME IMPROVEMENT GRANT PROGRAM

SPRING 1995

PROGRAM OVERVIEW

The East Harriet-Farmstead NRP Home Improvement Grant Program is entering its third and final phase. During the 1994 Spring and Fall phases, two thirds of the total $200,000 was awarded for projects throughout the neighborhood. This packet kicks off the third and final round of the grant program.

The overall purpose of this grant program is to increase and encourage housing maintenance and rehabilitation work as a means of improving the value and appearance of both individual homes and the neighborhood as a whole. In addition, it is designed specifically to assist homeowners otherwise unable to afford such rehabilitation work and those often disqualified from existing public grant and loan programs.

To accomplish these goals with limited funds, the program targets specific types of home improvements and levels of household income. The program gives funding priority to exterior, structural, accessibility, and safety improvements. Income level affects a homeowner's eligibility in the program, the maximum grant amount available to them, and whether matching funds are required. (See the attached *Guidelines* for more specific information regarding eligibility and funding).

Please review the enclosed information and grant application. If you are eligible, the next step is to submit your application to EHFNA by April 26, 1995 at 4:00 p.m. Applications must include a description of the proposed work and at least one written, competitive bid. To assist you in this process and to answer any questions about the program, EHFNA is again holding informational workshops at its office in the Southwest Senior Center (3612 Bryant Avenue South) on the following dates (attendance is optional and will not affect your application):

- **Tuesday, March 28 at 7:00 p.m.**
- **Saturday, April 1 at 10:00 a.m.**
- **Wednesday, April 12 at 7:00 p.m.**

(please note: the EHFNA Low-Interest Loan Program will begin in May.)

HOME IMPROVEMENT GRANT PROGRAM
Spring 1995

PROGRAM GUIDELINES

1. **MAXIMUM GRANT AMOUNT:**
   - For 100% grant (no match): $4,000 per property owner
   - For 50% grant (1 to 1 match): $2,000 per property owner

2. **ELIGIBLE PROPERTIES.** Only property owners are eligible for grants. Eligible properties are limited to owner-occupied single-family homes and owner-occupied duplexes. Households receiving grants in the Spring and Fall of 1994 are not eligible for Spring 1995 grants.

3. **MATCHING REQUIREMENTS.** Depending on income eligibility (see below), grants will be awarded either on a 1 to 1 matching basis (with owners required to invest at least an equal amount of their own funds into the project) or as a straight grant not requiring any matching funds. *EHFNA will provide information regarding potential sources of matching funds, including the Minneapolis Community Development Agency (MCDA), other public programs, and private lenders.*

4. **INCOME ELIGIBILITY.** Income parameters are based on the 1994 area median income level as defined by HUD. No household with a gross income over 110% of the area median is eligible for a grant. All households with a total gross income between 80% and 110% of the median income are eligible for a matching grant. Households with a total gross income less than 80% of the median are eligible for a full (non-matching) grant. *"Total gross income" means the total, non-adjusted income received in 1994 by all the individuals living in the household for nine or more months (not including renters). Refer to line 23 of your income tax Form 1040 for the applicable figure. If you are selected for a grant, a copy of your tax return will be required later for income verification. If you have any questions regarding income requirements, call EHFNA.*

Household Size	80% of Median	110% of Median
1 person	$28,150	$39,270
2 people	$32,150	$44,880
3 people	$36,200	$50,490
4 people	$40,200	$56,100
5 people	$43,450	$60,610
6 people	$46,050	$65,120
7 people	$49,850	$69,520
8 people	$53,050	$74,080
9 people	$57,150	$78,540

5. **ELIGIBLE WORK.** Only projects for exterior building repair and rehabilitation, landscaping improvements, repair of structural deficiencies, accessibility-related improvements, or building code compliance are eligible for grant funds. Potential projects include retaining walls, steps, railings, garage repair, painting, roofs, windows, gutters and downspouts, deck or patio repair, and sidewalks. The following projects are not eligible: room additions, storage buildings, playground equipment, hot tubs, saunas, pools, or any interior work not listed above. Final eligibility of proposed projects shall be determined by the EHFNA Housing Grants Committee.

6. **ELIGIBLE CONTRACTORS.** All work must be performed by licensed, bonded, and insured building contractors. Exceptions may be allowed for qualified property owners opting to perform the work themselves (see below). *To verify that a contractor is licensed, call the City of Minneapolis Division of Licenses & Consumer Services at 673-3001. This office can also provide information about a contractor's record, including any history of permit violations, consumer complaints, or disciplinary action taken against them for violating city ordinances. This office can also provide a list of addresses for six complaint-free contractors (673-3905). For contractors also working outside the Twin Cities, call the Minnesota Chamber of Commerce at 296-6319 and ask if the contractor has a state license and if any complaints have been filed against him/her. Also be sure to do background checks on subcontractors (ask your contractor to identify any subcontractors on your bid and contract).*

7. **SWEAT EQUITY.** Arrangements for property owners to perform the project work themselves shall be awarded on a case-by-case basis. Such applicants must clearly demonstrate the ability to complete high quality work within the required time period. Grant funds will be allowed only for materials; property owners will not be compensated for their labor.

8. **COOPERATIVE PROJECTS.** Neighbors are encouraged to cooperate in applying for mutually beneficial projects (such as improvements to shared driveways or landscaping). Such projects will be reviewed on a case-by-case basis.

9. **PROJECT LENGTH.** Once the grant is awarded and necessary contracts executed, project work must be completed within 90 days. This time limit does not apply to the time spent obtaining bids.

HOME IMPROVEMENT GRANT PROGRAM

Spring 1995

SELECTION PROCESS

Initial applications for grants will be accepted beginning at 9:00 a.m. on March 20, 1995. All applications must be postmarked by April 24, 1995 or hand-delivered to the EHFNA office by 4:00 p.m. on April 26, 1995. All applicants will be notified of grant decisions May17, 1995.

The funds available for the program are limited, and it may be necessary for EHFNA to prioritize grant applications. Priority will be given to those projects that will:

- Address safety considerations and remedy building code violations; or
- Have a substantial effect on improving the appearance of the property and enhancing the property value.

All criteria being considered, if there is an excess of equally qualified applicants, a lottery drawing of those applications will be held.

COMPLETION/DISBURSEMENT PROCEDURE

1. EHFNA will disburse grant funds directly to the contractor of the project (or to the owner in the case of a sweat equity arrangement). In a 1 to 1 match, homeowners are responsible for paying the contractor the other half of the project amount, including any down payment that may be required by the contractor before the work is completed.

2. Grant disbursements will be made only when all project work is completed and the work is inspected by EHFNA. In addition, the following must be provided to EHFNA before disbursement can be made:

   - A Certificate of Completion signed by the owner indicating satisfaction with the work and authorizing disbursement to the contractor;
   - A Certificate of Completion signed by the contractor;
   - An original invoice from the contractor or material supplier;
   - Certification that the completed work has been inspected by an EHFNA representative; and
   - Evidence of City permit abatement (if a permit was required for the work).

3. Upon disbursing the grants, EHFNA will receive and retain lien waivers from the contractors or detailed signed receipts from material suppliers indicating that full payment for all installed materials has been received.

HOME IMPROVEMENT GRANT PROGRAM
Spring 1995

TIMETABLE

March 19	Information/Application Packets distributed to neighborhood residents.
March 28	Informational Workshop #1 (7:00 p.m. at the Southwest Senior Center)
April 1	Informational Workshop #2 (10:00 a.m. at the Southwest Senior Center)
April 12	Informational Workshop #3 (7:00 p.m. at the Southwest Senior Center)
April 26	Application deadline. All applications must be postmarked by April 24 or hand-delivered to the EFHNA office by 4:00 pm on April 26.
May 6	Selection of applications to be funded. Notification sent to applicants May 17.
May	Grant recipients complete bid and contracting process.
May-August	Home improvement projects completed and inspected; grants disbursed; lien waivers collected.
September	Close-out procedures completed.

RESOURCES

Sources of Matching Funds

Minneapolis Community Development Agency (MCDA) Home Improvement Loans and Grants (673-5286)

Minnesota Housing Finance Agency (MHFA) Home Improvement Loans (available through the MCDA and many private lenders)

Home Equity Loan (contact a private lender)

Mortgage or "Contract For Deed" Refinancing (contact a private lender)

Sources of Contractors

EHFNA's *Contractor Sourcebook* (comprised of questionnaires from other projects in the neighborhood)

Natl Assoc of Remodeling Industry of MN (895-5129)

Natl Assoc of Minority Contractors (374-5638)

Painters & Allied Trades (379-4823)

Sheet Metal, Air Conditioning & Roofing Contractors (593-0941)

MN Masonry Inst (935-8267)

For Background Checks

City of Mpls License & Consumer Services Division (673-3001)

City of Mpls Dept of Inspections (673-5800)

Better Business Bureau (699-1111)

MN Atty General (296-6196)

MN Dept of Commerce (296-6319)

REFERENCES from similar projects, including some still in progress (request names from contractor)

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Appendix M

SOUTHEAST COMO IMPROVEMENT ASSOCIATION

Como Home Improvement Incentive Grant (CHIIG)
1994 (Year 2) Lottery & Applicant Report

Total Applicants: 183

Total grant funds requested: $441,760

Grantees selected: 80 in the lottery plus 4 using funds remaining from last year, Total=84

Grant funds awarded: $192,761.50 to lottery winners, $11,979 using last years funds, Total=$204,740.50

Average grant: $2437.39

Rental properties receiving grants: 10

Total grants for rental properties: $26,489.00

Chance of be selected in the lottery: 44% (same as last year)

COMO HOME IMPROVEMENT INCENTIVE GRANT (CHIIG)
PROGRAM REPORT November 23, 1993

Total Applicants: 140

Total Recipients: 62

Properties improved with grant funds: 73

Rental property owner recipients: 18 (13%)

Rental properties improved: 29 (40%)

Total grants awarded: $216,500

Matching investments: $258,500

Non-grantees making improvements**: 36 (51%)

Total non-grantee investment: $191,000

Total properties improved: 109

Total property improvements: $666,000

Leverage - Private/Public $ ratio: 2/1

** 36 of 71 non-grantees contacted did the work, despite not receiving a grant, and invested another $191,000 in their properties. Non-grantees included people who applied for a grant, but were not selected in the lottery. Since bids were needed to apply, we assume that non-grantees had become motivated through the application process and wanted to participate in the overall neighborhood improvement effort.

One shortcoming of the CHIIG project is that the substandard properties most in need of improvement received very few CHIIG funds. Of 105 substandard properties in the target area, only 6 of these owners applied for grants and only 2 received CHIIG funds.

Types of projects undertaken by CHIIG recipients

High visibility projects including painting, siding, stucco, trim, porches, decks, & fences: 52% of projects or 38 properties
Windows, doors, steps, & stairways: 41% of projects or 30 properties
Sidewalks, driveways, parking areas: 34% of projects or 25 properties
Roofs: 34% of projects or 25 properties
Landscaping: 12% of projects or 9 properties
Garages: 11% of projects or 8 properties